REPORT ON RISK MANAGEMENT APPLICATION IN INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Bank Name : PT Bank QNB Indonesia Tbk (Individual)
Report Position : 31 December 2019

Qualitative Analysis
IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates move, there will be changes in present value and timing of future cash flow so that the Bank's economic value will also change. Interest rate changes can also affect interest income, as result of interest rate-sensitive income and expenses. The risk of excessive interest rates can cause significant losses for the Bank, especially if these risks are not well managed and mitigated. Currently, the Bank conducts IRRBB calculations using the EVE (Economic Value of Equity) and NII (Net Interest Income) methods. As an effort to manage and mitigate IRRBB, the Bank manages this with the Non-Traded Market Risk policy. This policy regulates the framework to identify, assess, control, and report the level of interest rate risks at the Bank. To avoid potential conflicts of interest, the IRRBB management process is regulated using the 3 lines of defence approach to ensure that tasks and responsibilities have been adequately separated. The Bank policy has also regulated the internal limit that the Bank has defined and escalation if excess occurs. The Bank conducts the IRRBB calculation on a monthly basis as a form of the Bank's internal monitoring, and also conducts quarterly calculations to be reported to the FSA/OJK. The IRRBB calculation conducted by the Bank has been adjusted to the rules in the FSA/OJK circular letter no. No.12/SEOJK.03/2018 regarding Guidelines for Measuring Standard Approach Risks for Interest Rate Risks in Banking Book for Commercial Banks.

In connection with the interest rate shock scenario that is used in IRRBB calculations, the Bank uses scenarios that are in accordance with the rules defined by the FSA/OJK. The Bank uses the parallel up, parallel down, steepener, flattener, short rate up and short rate down scenarios to calculate EVE and uses parallel up and parallel down scenarios for NII. Currently, the Bank is not conducting hedging, because in general, the Bank has relatively low exposure to IRRBB. In the ΔEVE and ΔNII calculations, the Bank does not include the commercial and spread margins in the calculation. The products that the Bank categorizes as Non Maturing Deposit (NMD) include Checking and Saving products with average repricing maturities defined using historical data while still considering average maximum periods for *core deposits* that are stipulated in the SEOJK circular letter on IRRBB. The Bank does not include prepayment and early redemption assumptions in the calculations. Total ΔEVE is the result of aggregation between IDR and USD currencies which both are significant currencies owned by the Bank. Current calculations are conducted without taking interest rate correlations between significant currencies into account.
Quantitative Analysis
The average period for repricing maturity that is applied to IDR NMD is 0.13 months, while for USD NMD it was 0.10 months. The longest repricing maturity period applied for Non Maturing Deposit (NMD) was 3 years.

IRRBB CALCULATION REPORT

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Currencies : IDR & USD

In Million Rupiah	ΔEVE	NII
Period	December-19	December-19
Parallel up	104,196.91	57,499.49
Parallel down	(121,778.18)	(57,499.49)
Steepener	26,379.25	
Flattener	73,216.10	
Short rate up	46,325.37	
Short rate down	(50,465.02)	
Maximum Negative Value (absolute)	121,778.18	57,499.49
Tier 1 Capital (for ΔEVE) or Projected Income (for NII)	3,524,269.26	448,764.84
Maximum Value Divided by Tier 1 Capital (for ΔEVE) or Projected Income (for NII)	3.46%	12.81%